

**LEGISLATIVE SERVICES AGENCY
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FISCAL IMPACT STATEMENT

LS 6366

BILL NUMBER: SB 407

NOTE PREPARED: Jan 25, 2005

BILL AMENDED:

SUBJECT: Onsite Waste Disposal System Tax Deduction.

FIRST AUTHOR: Sen. Kruse

BILL STATUS: CR Adopted - 1st House

FIRST SPONSOR:

FUNDS AFFECTED: X GENERAL
X DEDICATED
FEDERAL

IMPACT: State & Local

Summary of Legislation: The bill provides that a taxpayer is entitled to an income tax deduction equal to the least of: (1) the cost of installing an onsite residential sewage discharging disposal system to waters; (2) the taxpayer's adjusted gross income; or (3) \$15,000.

Effective Date: January 1, 2005 (retroactive).

Explanation of State Expenditures: The Department of State Revenue (DOR) would incur some administrative expenses relating to the revision of tax forms, instructions, and computer programs to incorporate this deduction. The DOR also would have to accept filings of documents required for obtaining the deduction. Expenses relating to these requirements presumably could be absorbed given the DOR's existing budget and resources.

Explanation of State Revenues: *Summary:* The bill establishes an Adjusted Gross Income (AGI) Tax deduction for individuals in Allen County who install an onsite residential sewage discharging disposal system. The revenue loss from this deduction could range from about \$80,000 initially to an indeterminable amount in future years. The revenue impact from the deduction could potentially begin in FY 2006.

Background: The bill establishes a deduction from AGI for individuals who install an onsite residential sewage discharging disposal system for discharge into waters. The deduction is equal to the lesser of the installation cost, the taxpayer's AGI for the tax year, or \$15,000. To qualify for the deduction, the taxpayer must obtain a qualified system certificate from the County Onsite Waste Management District. Under current statute a county may establish an Onsite Waste Management District to perform various functions relating to onsite

systems. However, systems that qualify for the deduction are, under current statute, limited to Allen County through a permitting process under the local health department.

Presently, there are at least 160 homeowners in Allen County whose onsite waste management system has failed and needs to be replaced. However, there is an indeterminable number of homeowners in Allen County with failing onsite systems that have not been discovered by state or county officials. Assuming a \$15,000 deduction for the 160 known taxpayers requiring installation of a new onsite system, the revenue loss from the deduction would total about \$81,600.

Explanation of Local Expenditures: Under the bill, the Allen County Onsite Waste Management District board would have to accept and review applications to certify installations of qualified systems.

Explanation of Local Revenues: Because the proposed deduction would serve to decrease taxable income, Allen County may, as a result, experience a minimal decrease in COIT and CEDIT revenue.

State Agencies Affected: Department of State Revenue.

Local Agencies Affected: Allen County.

Information Sources: Allen County Council meeting minutes, January 28, 2004, meeting.

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